

Message Text

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11

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-03 PA-04 PRS-01 USIA-15 SAM-01 IO-14 DRC-01

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R 131724Z SEP 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3893

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS LONDON 11903

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS-WEEK ENDING SEPTEMBER 13

BEGIN SUMMARY: THE POUND REMAINED RELATIVELY STABLE DURING
THE WEEK RISING FROM \$2.3110 ON FRIDAY (SEPT. 6) TO

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\$2.3165 ON TUESDAY (SEPT. 10) AND HOLDING AT \$2.3150 ON

WEDNESDAY AND THURSDAY TO CLOSE 40 POINTS ABOVE LAST THURSDAY'S CLOSE. THE TRADE WEIGHTED DEVALUATION ON THURSDAY (SEPT. 13) WAS 17.9 PERCENT, UNCHANGED FROM LAST WEEK'S CLOSE. GOLD PRICES FELL BY ABOUT A DOLLAR EACH DAY THROUGH WEDNESDAY (SEPT. 11) ROSE BY \$1.50 ON THURSDAY TO CLOSE AT \$154.50, DOWN \$3 ON LAST THURSDAY'S CLOSE. AFTER THREE SUCCESSIVE MONTHS OF DECLINE, THE WHOLESALE PRICE INDEX ROSE BY 1.3 PERCENT DURING AUGUST TO 155.2 (1971 EQLS 100), 20 PERCENT ABOVE DECEMBER 1973. RAW MATERIALS PRICES ROSE TO 218.2 (1971EQLS100) AN INCREASE OF 1.7 PERCENT OVER JULY AND 30 PERCENT ABOVE DECEMBER 1973. AUGUST TRADE FIGURES RELEASED ON THURSDAY (SEPT. 12) SHOWED A 158 MILLION POUND DECREASE IN THE TRADE DEFICIT TO 319 MILLION POUNDS. SECOND QUARTER BALANCE OF PAYMENTS DATA SHOW A CURRENT ACCOUNT DEFICIT OF 1,051 MILLION POUNDS OF WHICH 917 MILLION POUNDS IS ATTRIBUTABLE TO TRADE IN OIL. THE INDEX OF RETAIL SALES VOLUME CONTINUED TO SHOW AN INCREASE RISING BY 2.3 PERCENT DURING AUGUST. END SUMMARY.

1. STERLING REMAINED RELATIVELY STABLE AGAINST THE DOLLAR AFTER RISING FROM \$2.3110 ON FRIDAY (SEPT. 6) TO \$2.3165 ON TUESDAY (SEPT. 10) AND HOLDING AT \$2.3150 ON WEDNESDAY AND THURSDAY. SOMEWHAT SURPRISINGLY, THERE WAS LITTLE FOREIGN EXCHANGE MARKET RESPONSE TO THE ANNOUNCEMENT OF A MARKED REDUCTION IN THE TRADE DEFICIT DURING AUGUST (SEE BELOW). ON A TRADE WEIGHTED BASIS, THE POUND'S DEVALUATION WAS 17.9 PERCENT ON THURSDAY (SEPT. 12), UNCHANGED FROM LAST WEEK'S CLOSING. THERE WAS LITTLE MOVEMENT IN THE PRICE OF GOLD WHICH CLOSED THURSDAY (SEPT. 12) AT \$154.50, OFF \$3 FROM LAST THURSDAY'S CLOSE.

2. AFTER THREE SUCCESSIVE MONTHS OF DECLINE, THE WHOLESALE PRICE INDEX ROSE BY 1.3 PERCENT DURING AUGUST, UP 20 PERCENT OVER DECEMBER 1973. THE WEAKENING OF THE PRICE INDEX ROSE BY 1.3 PERCENT TO 155.5 (1971EQLS100) DURING AUGUST, UP 20 PERCENT OVER DECEMBER 1973. THE WEAKENING OF THE POUND DURING AUGUST AND THE CONTINUING HIGH PRICE FOR FUEL WERE CONTRIBUTORY FACTORS IN THE RISE IN THE RAW MATERIALS INDEX, SINCE THE INDEX REFLECTS, IN PART, THE PRICES AT WHICH CONTRACTS FOR RAW MATERIALS AND FUELS ARE UNCLASSIFIED

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ARRANGED AND SOME 70 PERCENT OF THE INDEX IS ACCOUNTED FOR BY IMPORTED GOODS. THIS RISE TO 218.2 (1971EQLS100) REPRESENTS AN INCREASE OF 30 PERCENT DURING THE FIRST EIGHT MONTHS OF THE YEAR.

3. THE TRADE DEFICIT DURING AUGUST FELL 158 MILLION POUNDS TO 319 MILLION POUNDS. OF THIS AMOUNT, 264 MILLION POUNDS WAS ACCOUNTED FOR BY THE DEFICIT ON TRADE IN OIL

(A DECREASE OF 81 MILLION POUNDS) AND 55 MILLION POUNDS ON NON-OIL TRADE (A DECREASE OF 77 MILLION POUNDS). THERE WAS AN INVISIBLE SURPLUS OF 105 MILLION POUNDS. THUS, THE CURRENT ACCOUNT WAS IN DEFICIT BY 214 MILLION POUNDS. (FOR DETAILS SEE SEPTTEL.)

4. IN THE SECOND QUARTER, THE UK RECORDED A CURRENT ACCOUNT DEFICIT OF 1,051 MILLION POUNDS (S.A.), OF WHICH 917 MILLION POUNDS IS ATTRIBUTABLE TO THE OIL TRADE DEFICIT. HOWEVER, THIS DEFICIT WAS MORE THAN OFFSET BY INVESTMENT AND OTHER CAPITAL INFLOWS RESULTING IN AN INCREASE IN OFFICIAL RESERVES OF 111 MILLION POUNDS. FOR ADDITIONAL INFORMATION SEE LONDON 11725.

5. THE INDEX OF RETAIL SALES VOLUME INCREASED 2.3 PERCENT TO 112 (1970EQLS100) IN AUGUST. TOTAL RETAIL SALES IN AUGUST (ABOUT HALF OF TOTAL CONSUMER SPENDING) ARE BELIEVED TO HAVE BEEN ABOUT 3 PERCENT ABOVE THE AVERAGE LEVEL FOR THE FIRST HALF OF THE YEAR. THE RETAIL SALES VOLUME WAS ONLY ABOUT ONE PERCENT ABOVE THE LEVEL OF AUGUST LAST YEAR, YET SHOWED AN INCREASE OF 18 PERCENT IN VALUE TERMS.

6. THE FORWARD DISCOUNTS ON STERLING WIDENED UNTIL WEDNESDAY (SEPT. 11) BUT NARROWED SLIGHTLY ON THURSDAY.

	9/5	9/12	CHANGE
1 MONTH	0.07-1/2	0.17-1/2	UP 0.10
3 MONTHS	0.95-1/2	1.11	UP 0.15-1/2
6 MONTHS	2.95-1/2	3.07-1/2	UP 0.12

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES GENERALLY NARROWED OVER THE WEEK

	9/5	9/12	CHANGE
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1 MONTH	11-1/8	10-11/16	DOWN 7/16
3 MONTHS	12-9/16	12-1/16	DOWN 1/2
6 MONTHS	13-1/4	12-15/16	DOWN 5/16

8. EURODOLLAR RATES MOVED DOWNWARD OVER THE WEEK.

	9/5	9/12	CHANGE
1 MONTH	12-5/16	11-11/16	DOWN 5/8
3 MONTHS	13-3/8	12-3/8	DOWN 1
6 MONTHS	13-15/16	13	DOWN 15/16

9. THE MINIMUM LENDING RATE WAS UNCHANGED AT 11-3/4 PERCENT ON FRIDAY, SEPTEMBER 13, 1974.
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